GOLDEY CAPITAL

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Newsletter (Q4 2016)

Fiduciary portfolio may vary from account based on individual needs of each client. These ETFs have been filtered based on their internal expense ratio (hidden cost), transaction cost, liquidity daily volume, issuer strength and breakdown of individual holdings and weightings. Constant monitoring and oversight of existing positions and potential new investments is part of the daily job duty as a Fiduciary manager.

Portfolio Sample:

Symbol	Name	Category	%	Trade	Expense	Yield
PCY	PowerShares Emerging Debt	Bonds Emerging Markets	2%	free	0.50%	4.74%
BKLN	PowerShares Senior Loan	Bonds High Yield	2%	free	0.65%	5.56%
CWB	SPDR® Barclays Convertible	Bonds Preferred Stock/Converts	2%	free	0.40%	3.10%
PGX	Powershares Preferred	Bonds Preferred Stock/Converts	2%	free	0.50%	5.54%
SCHZ	Schwab US Aggregate Bonds	Bonds intermediate	7%	free	0.05%	1.81%
IAU	iShares Gold Trust ETF	Commodity Precious Metals	4%	$7.95	0.25%	0.00%
XLP	Consumer Staples Select	Equities Consumer Staples	7%	$7.95	0.14%	2.36%
KRE	SPDR S&P Regional Banking	Equities Financials	6%	$7.95	0.35%	1.79%
SCHF	Schwab International Equity	Equities Foreign Large Cap	7%	free	0.08%	2.85%
XLV	Health Care Select Sector	Equities Health & Biotech	7%	$7.95	0.14%	1.48%
QQQ	PowerShares QQQ ETF	Equities Large Cap Growth	8%	$7.95	0.20%	0.00%
VNQ	Vanguard REIT ETF	Equities Real Estate	5%	$7.95	0.12%	3.20%
SCHB	Schwab Broad Market	Equites	15%	free	0.03%	1.95%
SCHE	Schwab Emerging Market	Equities Emerging Markets	6%	free	0.14%	2.34%
VFH	Vanguard Financials	Equities Financials	3%	$7.95	0.10%	2.38%
VB	Vanguard Small Cap USA	Equities Small Cap Blend	10%	$7.95	0.08%	1.53%
SMH	Van Eck Semiconductor	Equities Semiconductors	2%	$7.95	0.35%	1.73%
Misc	Cash, money market	Bonds - Money Market	5%	free		
		total allocated	100%			

These allocations might be altered for each client based individual positions held by client. For example, a client with a concnetration of a tech stock might choose to have a lower or non-existent allocation to the Nasdaq index symbol QQQ. A client might have a large unrealized profitable position in Berkshire Hathaway and no desire in triggering that gain so we might reduce ETF exposure to US large cap companies for a more balanced portfolio. This customization is only available for clients enrolled in the Fiduciary services advisory program.

Source for SEC yield, expense ratio, daily liquidity provided by 3rd party, Morningstar Inc™

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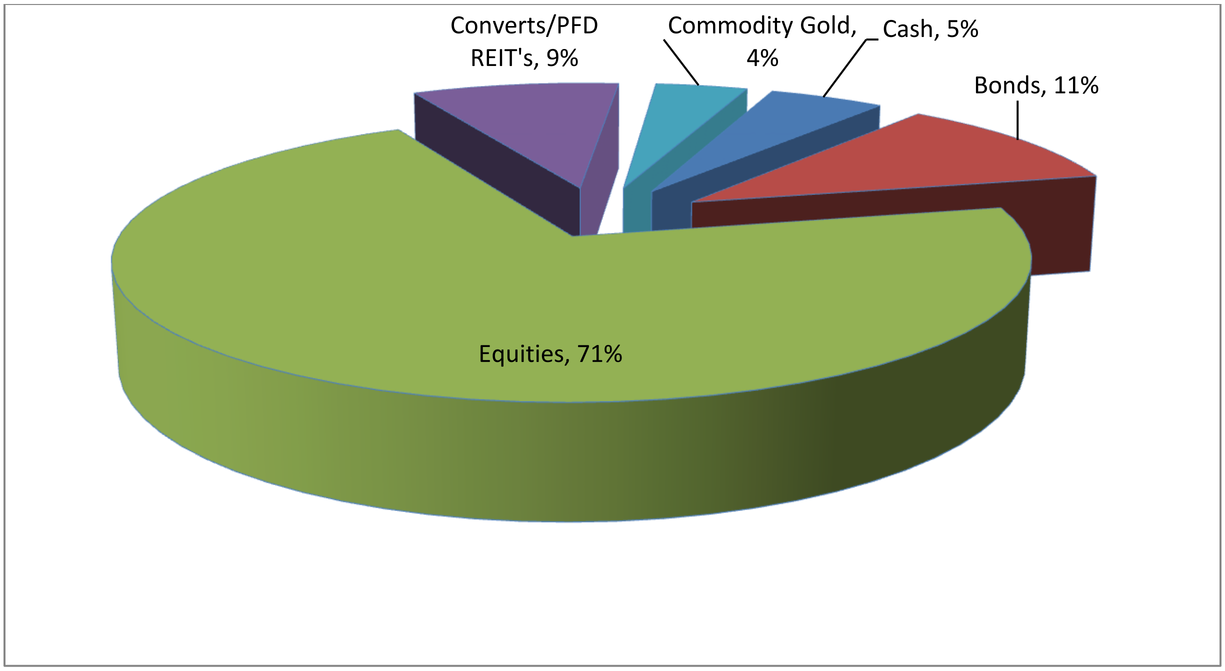

Portfolio Reasoning

Rates will one day go higher! We just don't know when that day will come and how many rate increases will follow or the frequency of increases. This portfolio allocation leans towards the theory that rates will not go higher in quick succession following the first rate hike. Debt and bonds lead the way for the entire influence of portfolio allocation as our allocation to equity would be lower if we had high quality safe choices for fixed income. This allocation is under constant review so consider all comments and illustrations for educational purposes.

Why Bonds? With the Japanese and German governments issuing sovereign debt with a yield below zero this translates into an annual negative number of minus real 2-4% when you factor inflation. In my opinion inflation is not the current threat as deflation is present in food, clothing and other staple prices. The US Treasury debt has been the destination for the world as evidence in times of crisis and the "Flight to Safety". With that knowledge, the US and other sovereign nations of quality has been printing debt. Why should any nation pay higher interest payments than they have to base on market conditions. Our current US Debt according to website, www.usdebtclock.org, is $19.5 trillion dollars and this does not include unfunded obligations. A 1% rise in interest rates totals an increase of $195 billion dollars equal to what we almost spend yearly our country combined: Education System and Domestic Protection (police, fire, courts, prisons, etc.) based on statistics from www.usfederalbudget.us.

If foreign governments and large institutions stop buying our debt then the marketplace will adjust to the levels and yield that buyers are willing to pay which is what happens in a free economy. If this were to occur and yields rise than we will re-asses our thesis.

With an exposure to foreign debt and US broad based bonds along with specialty items such as bank loan and convertible preferred we feel the mix is appropriate for our thesis on global interest rates. We encourage all clients to consider having a percentage of investable assets in cash, CD or other high quality bonds have short-term maturity dates.

Why gold ETF (GLD)? It is used as a hedge against stocks and bonds as a non-correlation of other assets. Under normal conditions the world looks at gold as a unifying currency so it is a basis for investment to stabilize portfolio. Buying GLD is a direct proxy for the bullion not the miners or other specialists. The ease of being able to quickly sell for very a low $7.95 transaction fee makes it more attractive investment over owning gold coins or other tangible gold. The percentage within the portfolio will increase or decreased based on several factors including trend line price charting and world events combined with stock market fundamentals. The target range for new allocations will be 0-7% dependent on market conditions with the ability for the allocation of GLD to rise up to 15% of the overall portfolio via appreciation.

Why Consumer Staples (XLP)? The portfolio is 99% US-based according to Morningstar and big brand companies that offer items that people need is appealing in an volatile world. The portfolio is diversified among many names but the top 10 name comprise 60% of portfolio with the top position going to Proctor and Gamble and Coca-Cola. This portfolio yields currently 2.3% and we believe is a nice addition to the broad based Schwab total portfolio symbol SCHB which includes many of the same companies within the XLP portfolio.

Why Healthcare sector (XLV)? In times of uncertainty people still need heath care products and services, so this sector deserves an extra weighting based on this thesis. Top holdings include Johnson and Johnson, Pfizer, Merck, UnitedHealth Group, Amgen, and many more with the top 9 holdings equaling almost 50% of overall portfolio.

Why Regional Banks (KRE)? Regional banks have more flexibility to service consumers over the bigger banks that are restrained by regulation based on their asset size. KRE also fits into our theme of over-weighting US exposure, as 99% of its assets are based in US. We also believe regional banks are still ripe for consolidation and should be more profitable if rates rise.

Why Vanguard Financials (VFH)? This allocation is a compliment to the regional banks ETF for exposure across to larger value companies that also include insurance and financial servicing. Also, fits into the US thesis where 98% are domestic based.

Why Schwab International (SCHF)? A 7% allocation to North America with the remaining 93% primarily allocated to stocks outside US spread amongst a variety of giant, large and medium size companies as defined by capitalization of Morningstar. A review of the top holdings finds a similarity to established brands that we achieve in the US Consumers Staple ETF where this International ETF has greater diversity and less concentration in the top 10 holdings. Big brand names include; Nestle SA, Novartis, Toyota, Samsung and many more.

Why Powershares (QQQ)? One of the most popular indexes ever created, this ETF is largely associated with large cap growth stocks with a large weighting to top 10 holdings. An alternate is lower cost fund from Vanguard (VUG) that has more diversity and less concentration. Allocation will switch between these two funds depending on underlying shifts in the individual top names. For example Apple is a 6% weighting in VUG but 11% in QQQ. It's this type of continuous evaluation that is part of the decision process of which ETF buy, hold, sell.

Why Vanguard REIT portfolio (VNQ)? REITS (real estate investment trusts) are one of the best ways of investing in real estate. An income source because 95% of their net income must pass through to investors to qualify as a REIT. They are excellent choices for potential appreciation. REITS offer diversity and low cost as opposed to direct ownership with far less constraints to buy, sell or maintain. In a rising rate environment, we anticipate REITs will be negatively affected but based on past observations this is typically reactionary and overdone. Currently, Simon property Group and Public Storage comprise almost 11.5% of entire portfolio.

Why Schwab Emerging Market (SCHB)? All growth doesn't happen in the US as some derives from China, Mexico, India and other countries. (The underlying stocks in this basket might be too volatile for most investors but as a diversified collective the risk/return is more palatable). The target weighting of 6% is a good example of an area that would be adjusted based on the risk needs of the client. Someone wanting less risk might have a lower allocation to Emerging Markets versus US Domestic. There is no guarantee one will outperform the other but based on history there is more volatility in emerging markets.

Vanguard Small Cap (VB) fits into US theme with a 99% allocation to domestic companies. Nicely diversified with the top 10 holdings under 5% of total allocation this ETF represent a broad based opportunity to participate in a sector traditionally volatile to individual names. Some of the greatest wealth for investing has come from those who purchased a small company before it grew into a much larger one. The ETF limits this "Home Run" mentality versus individual stock ownership but still allows participation and appreciation.

Van Eck Semiconductor (SMH) is a target sector allocation based on the trend of "Internet of Things" as more devices become interconnected. This is a concentrated fund made of the biggest names in this category such as Intel, Taiwan Semi, Qualcomm, Nvidia and more.

Based on this narrow sector and concentration of names within the top holdings the target % of account value has been allocated to 2%. This is a good example of tactical use of a sector ETF.

We will not be purchasing country ETF specific and will be limiting our ETF sector exposure to narrow industries such as semiconductors that fit within an economic theme. We will own the gold ETF but not the gold miners due to regulation and other extraneous risk. It's possible we might own a broad based commodity ETF such as US Oil but not own the refiners or explorers. We will be very selective in our use of narrow sectors and welcome any questions or client feedback. We will also communicate the reasoning behind such decisions via e-mail, newsletters or personal conversations.

In summary this detailed outline is provided to express our care in giving our clients transparency into the methodology of decisions being made on your behalf. This commitment extends to being your advocate as a Fiduciary as we seek the best pricing and service combination for each person that has entrusted us with their investable savings.

Each quarter going forward we will update this model and portfolio thesis and also try and communicate why we have shifted to or from a certain investment as it pertains to the world economy or other events that influence financial portfolio decision.

With great respect,

Ian Goldey

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Portfolio Manager